

**INGERSOLL MACHINE
AND
TOOL COMPANY,
LIMITED**

1967

ANNUAL REPORT

2

file



Digitized by the Internet Archive
in 2025 with funding from
University of Alberta Library

https://archive.org/details/Inge0906_1967

Ingersoll Machine and Tool Company, Limited

Annual Report 1967

• DIRECTORS

H. A. WILSON	-	-	-	-	Ingersoll, Ontario
J. D. DUNCAN	-	-	-	-	Ingersoll, Ontario
F. G. LAWSON	-	-	-	-	Toronto, Ontario
J. D. LOVERIDGE	-	-	-	-	Ingersoll, Ontario
J. B. MITCHELL	-	-	-	-	Ingersoll, Ontario
K. C. SWANCE	-	-	-	-	Ingersoll, Ontario
E. L. WILSON	-	-	-	-	Ingersoll, Ontario

• OFFICERS

President	-	-	-	-	-	H. A. WILSON
Managing Director		-	-	-	-	J. D. LOVERIDGE
Secretary Treasurer		-	-	-	-	J. D. DUNCAN

• Transfer Agent and Registrar

THE CANADA TRUST COMPANY	-	Toronto, Ontario
--------------------------	---	------------------

• AUDITORS

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants
London, Ontario

Ingersoll Machine and Tool Company, Limited

Directors' Report to the Shareholders

We are again able to report that in the year ended 31st December 1967, we attained a higher level in both sales and profit than in previous years. We are pleased to submit the year's results in the following report, accompanied by the consolidated balance sheet, statement of earnings, statement of earnings retained and used in the business, and statement of source and use of funds of the company and its subsidiary, Morrow Screw & Nut Company, Limited.

Operations

The consolidated sales of the company and its subsidiary amounted to \$11,116,300, an increase of \$1,656,600. The increase in sales resulted entirely from the operations of the parent company. Sales of the subsidiary company decreased to \$5,417,400 while sales of the parent company increased to \$5,698,900.

The consolidated net income before provision for depreciation and income taxes amounted to \$1,672,200 compared with \$1,022,600 in 1966. After provision for depreciation and income taxes, the net income was \$768,600 compared with \$591,200 in 1966. After deducting the minority shareholders' portion of the profit of the subsidiary company (\$3,400 in 1967 and \$26,600 in 1966), the net profit transferred to consolidated retained earnings account was \$765,200 compared with \$564,600 in 1966. This increase in net profit was also the result of the operations of the parent company where the increase was \$312,800. The net profit of the subsidiary was reduced from \$204,800 to \$68,700 after provision for income taxes and the minority shareholders' portion of the net profit.

After provision of \$4.00 per share upon the outstanding preferred shares, the earnings per share of the common stock were \$4.52 in 1967 compared with \$3.41 in 1966.

Four quarterly dividends of \$1.00 per share were paid upon the preferred shares. Four quarterly dividends of 12½¢ per share plus a participating dividend of 50¢ per share, were paid upon the Class "A" common shares. Two dividends totalling \$1.00 per share were paid upon the Class "B" common shares. In the attached five-year comparison of operations, we have shown the dividends as declared rather than as paid and the effect is to point up the fact that more dividends were declared on the Class "B" shares than on the Class "A" shares. This is merely an adjustment for the one year. In no

year have we actually paid more dividends on Class "B" shares than on Class "A" shares.

During 1967, the parent company acquired an additional 2372 common shares of the subsidiary company. Minority shareholders now hold only 488 shares of the 30,000 shares issued.

Consolidated earnings retained and used in the business increased by a net amount of \$695,100 and at December 31st, 1967, this account amounted to \$4,122,928 compared with \$3,427,800 at the end of 1966. The capital surplus arising from redemption of preferred shares increased to \$243,200 and the total of capital surplus account and earnings retained is now \$4,366,100 compared with \$3,668,000 at December 31st, 1966.

During 1967, certain of the executives of the company were given a right to purchase 820 Class "A" shares each at the price of \$20.00 per share. As a result of this option, an additional 4100 Class "A" common shares were issued and the capital account increased by \$82,000.

The subsidiary company acquired an additional 3000 common shares of Williams Form Hardware and Rock Bolt (Canada) Limited during the year at a cost of \$5.00 per share. We now hold 10,000 shares of the 40,000 shares issued, the other 30,000 being held by Williams Form Engineering Corporation of Grand Rapids, Michigan. We should note here that the policy of Williams Form Hardware and Rock Bolt (Canada) Limited will be to pay 40% of profits in the form of dividends.

Plant & Equipment

During 1967, additions to plant and equipment amounted to \$141,400 of which \$21,000 represented purchases by the parent company and \$120,400 by the subsidiary. Our purchases during 1968 will be much greater than 1967.

Financial Position

Current assets at December 31st, 1967, amounted to \$3,887,600 and current liabilities amounted to \$1,386,800, leaving consolidated working capital of \$2,500,800, an increase of \$599,600 for the year.

The shareholders' equity in the company as at December 31, 1967, amounted to \$4,739,900, represented by capital stock, capital surplus, and earnings retained in the business. This is equivalent to \$4,438 per 4% preferred share outstanding. After deducting the preferred stock at par value, the combined Class "A" and Class

Ingersoll Machine and Tool Company, Limited

"B" common shares have a book value of \$27.55 compared with \$23.48 at the end of the previous year.

Outlook

These exceptional financial results arise from a combination of fortuitous circumstances and should not be taken as indicative of the immediate and sustained earning power of your company. The Canada-U.S. Automotive Pact which has now been in existence since 1965 still gives concern to your directors. This Pact was scheduled for review at the end of 1967 and we understand that such review is taking place, but all negotiations between Washington and Ottawa are being conducted in an attitude of secrecy with a blackout on news of any progress, and it is extremely difficult for your directors to plan a future course of action without knowing what changes, if any, will be incorporated in the pact. During the past year, a substantial contract has been obtained from one of the major automobile manufacturers for the supply of machined truck steering components and production will start in July. However, once again it has been necessary for your company to invest heavily in new machine tools in order to supply these components at a competitive price.

It will be recalled that the position adopted by your company at the inception of the Canada-U.S. Automotive Pact was that a likely effect would be for the major automotive companies to erect assembly plants in Canada in order to obtain their Canadian Value Added requirements from captive plants and substantially reduce their purchases of machined components from sub-contractors. The short-term effect would be extremely difficult trading conditions for companies such as your own, and the long-term effect would be the degradation of the Canadian automotive industry into primarily a semi-skilled assembly operation. It becomes more and more apparent that this forecast was correct. Moreover, the pressure of the unions for wage parity between Canada and the United States can only lead to a flow of work out of Canada. During the past few weeks, your company has been notified by one of the major automotive companies that a contract for two front end suspension parts which it has been supplying for a little under four years, is to be cancelled, not because of any dissatisfaction with quality, price or delivery, but because this customer finds itself with more Canadian Value Added than it requires and at the same time has an excess of capacity at a captive plant in

the United States — this decision will cost your company something approaching \$500,000 a year in sales.

The Defence Contract with Canadian Commercial Corporation for U.S. Defence supplies terminated towards the end of 1967 and was not renewed despite our highly competitive price and excellent production record. However, early in 1968, a contract for a somewhat similar component was received from the same source and tooling-up is now in progress. Neither this contract nor the automotive contract mentioned above will contribute towards the first half-year's earnings, but will substantially influence the earnings in the latter half of 1968.

Our subsidiary company, the Morrow Screw & Nut Company Limited, has experienced a disappointing year with lower sales and a considerable reduction in earnings. This operation is very volume-sensitive with costs and consequently earnings being greatly affected by a relatively small variation in sales. Consequently, your directors have commissioned a professional survey of the marketing operations of this company and this survey will be available in the late spring. Your directors will take what action is required to restore the profitability of this company to a more satisfactory level. It is reasonable to expect, however, that the recommendations will point to medium-term rather than to short-term solutions, and it might, perhaps, be unwise to expect much improved results from this company for 1968.

Williams Form Hardware and Rock Bolt (Canada) Limited in which Morrow Screw & Nut Company Limited holds a 25% interest, was again Morrow's biggest customer in 1967, with purchases of some \$430,000. However, this itself was some \$30,000 below the 1966 figures and fell short of the anticipated figure of \$500,000.

The prospect for 1968, then, is that the profits while not reaching the exceptional levels of 1967, should still represent a satisfactory return upon capital.

Your directors again wish to express their appreciation of the efforts made by the staff without whose co-operation these results could not have been achieved.

On behalf of the Board,

H. A. WILSON,
President.

RIDDELL, STEAD, GRAHAM & HUTCHISON

Chartered Accountants

Established 1869

200 Queens Avenue

London, Ont.

AUDITORS' REPORT

To The Shareholders

Ingersoll Machine and Tool Company, Limited

We have examined the accompanying consolidated financial statements of Ingersoll Machine and Tool Company, Limited and its subsidiary, Morrow Screw & Nut Company, Limited, for the year ended December 31, 1967 comprising the consolidated balance sheet at that date and the consolidated statements of earnings, earnings retained and used in the business, capital surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON

March 28, 1968

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

**CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1967**

	<u>1967</u>	<u>1966</u>
SALES AND OTHER INCOME		
Sales of products	\$11,116,278	\$9,459,724
Income from investments	16,995	3,603
	<u>11,133,273</u>	<u>9,463,327</u>
COST AND EXPENSES		
Cost of products sold	8,349,748	7,386,490
Depreciation of plant and equipment	224,565	225,336
Selling and administrative expenses	1,097,330	1,081,595
Interest on borrowed funds	10,747	41,347
	<u>9,682,390</u>	<u>8,734,768</u>
EARNINGS FROM OPERATIONS	1,450,883	728,559
Profit on disposal of fixed assets	4,271	68,673
Loss on sale of marketable securities	(7,548)	—
	<u>1,447,606</u>	<u>797,232</u>
EARNINGS BEFORE INCOME TAXES	1,447,606	797,232
Provision for income taxes (Note 7)	679,000	206,000
	<u>768,606</u>	<u>591,232</u>
NET EARNINGS INCLUDING MINORITY SHAREHOLDERS' INTEREST	768,606	591,232
Minority shareholders' interest in the net earnings of subsidiary company	3,431	26,603
NET EARNINGS	<u>\$ 765,175</u>	<u>\$ 564,629</u>

Ingersoll Machine and Tool

AND ITS SUBSIDIARIES
MORROW SCREW & NUT COMPANY

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS

	<u>1967</u>	<u>1966</u>
Cash	\$ 153,746	\$ —
Bank deposit receipts	600,000	—
Marketable securities, at cost	—	62,250
Accounts receivable	1,249,108	1,499,332
Inventories valued at the lower of cost and net realizable value (Note 1)	1,831,248	2,008,365
Prepaid expenses	53,528	47,644
	<u>3,887,630</u>	<u>3,617,591</u>

INVESTMENTS

Mortgage receivable	14,000	17,500
Shares of a Canadian Company, at cost	22,000	7,000
Life insurance, cash surrender value	64,007	56,929
	<u>100,007</u>	<u>81,429</u>

SPECIAL REFUNDABLE TAX

<u>35,251</u>	<u>23,923</u>
---------------	---------------

FIXED ASSETS

Plants and properties (Note 2)	2,356,023	2,468,591
--------------------------------	-----------	-----------

<u>\$6,378,911</u>	<u>\$6,191,534</u>
--------------------	--------------------

Tool Company, Limited

SSIDIARY
COMPANY, LIMITED

ET AS AT DECEMBER 31, 1967

LIABILITIES

CURRENT LIABILITIES	1967	1966
Bank indebtedness (secured)	\$ —	\$ 599,206
Accounts, payable and accrued	667,925	890,409
Income and other taxes	622,728	164,854
Dividends payable	46,164	11,924
Current maturity on long-term debt (Note 3)	49,998	49,998
	<u>1,386,815</u>	<u>1,716,391</u>
LONG-TERM DEBT		
Advances repayable to the Government of Canada (Note 3)	<u>149,995</u>	<u>199,824</u>
MINORITY INTEREST		
Preferred shares	57,100	57,100
Common share equity	45,123	255,455
	<u>102,223</u>	<u>312,555</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
3,500 4% cumulative, redeemable, sinking fund preferred shares of \$100 each (Note 4)		
100,000 class A common shares without par value (Note 5)		
100,000 class B common shares without par value		
Issued		
1,068 preferred shares	106,800	109,800
86,140 class A common shares (Note 6)	174,475	92,475
82,040 class B common shares	92,475	92,475
CAPITAL SURPLUS ARISING FROM REDEMPTION OF PREFERRED SHARES	243,200	240,200
EARNINGS RETAINED AND USED IN THE BUSINESS	4,122,928	3,427,814
	<u>4,739,878</u>	<u>3,962,764</u>
	<u>\$6,378,911</u>	<u>\$6,191,534</u>

Signed on behalf of the Board

H. A. WILSON, Director

J. D. DUNCAN, Director

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1967

NOTE 1	<u>1967</u>	<u>1966</u>
Inventories consist of:		
Finished products	\$ 600,951	\$ 762,030
Work in process	527,564	551,825
Raw materials	702,733	694,510
	<u>\$1,831,248</u>	<u>\$2,008,365</u>

NOTE 2				
Plants and properties consist of:				
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value 1967</u>	<u>1966</u>
Land	\$ 54,406	\$ —	\$ 54,406	\$ 56,706
Buildings	990,916	503,080	487,836	508,718
Equipment	4,802,768	2,988,987	1,813,781	1,903,167
	<u>\$5,848,090</u>	<u>\$3,492,067</u>	<u>\$2,356,023</u>	<u>\$2,468,591</u>

NOTE 3
The company received the sum of \$499,984 from the Government of Canada under a capital assistance agreement for defence export which was used to procure certain fixed assets as specified in the agreement. Under the terms of the agreement 50% of the funds received were contributed by the Government and 50% are to be repaid without interest in annual instalments of \$49,998 to March 31, 1971.

NOTE 4
The preferred shares are redeemable at a maximum price of \$105 and they do not have voting rights unless the dividends thereon are eighteen months in arrears.

NOTE 5
The class "A" common shares are entitled to receive fixed cumulative preferential cash dividends at the rate of 50¢ per annum and they do not have voting rights unless the dividends thereon are eighteen months in arrears.

NOTE 6
A share option plan was established in 1967 for certain directors whereby 4,100 of the company's authorized and unissued class "A" common shares were reserved for issue under the plan. All of the stock options have been taken up and the 4,100 shares were issued in 1967 for a cash consideration of \$82,000.

NOTE 7
As a result of the companies intention to claim for tax purposes capital cost allowances in excess of the depreciation recorded in the accounts, the provision for income taxes is approximately \$67,000 less than the provision that would otherwise have been charged against earnings. This difference may be applicable to future periods in the event amounts that can be claimed for tax purposes are less than the depreciation recorded in the accounts. The accumulated amount by which income taxes have been so reduced in this and prior years is approximately \$788,000.

NOTE 8
The total remuneration received as a director, officer or employee by directors from the company and its subsidiary for the year ended December 31, 1967 was \$114,047.

NOTE 9
On the basis of the most recent independent actuarial reports the unfunded pension liabilities at December 31, 1967 were estimated to be approximately \$800,000. This amount will be funded in annual instalments over the next twenty-two years.

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

**CONSOLIDATED STATEMENT OF EARNINGS RETAINED
AND USED IN THE BUSINESS FOR THE
YEAR ENDED DECEMBER 31, 1967**

	<u>1967</u>	<u>1966</u>
BALANCE AT BEGINNING OF YEAR	\$3,427,814	\$2,767,393
Net earnings for the year	765,175	564,629
Discount on redemption of preferred shares	900	1,302
Surplus resulting from acquisition of minority shares	134,804	221,943
	4,328,693	3,555,267
Capital surplus arising from redemption of preferred shares	3,000	—
Dividends declared		
Preferred shares	4,332	4,392
Class "A" common shares	95,883	61,531
Class "B" common shares	102,550	61,530
	205,765	127,453
BALANCE AT END OF YEAR	\$4,122,928	\$3,427,814

**CONSOLIDATED STATEMENT OF CAPITAL SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1967**

	<u>1967</u>	<u>1966</u>
BALANCE AT BEGINNING OF YEAR	\$ 240,200	\$ 240,200
Amount transferred from retained earnings	3,000	—
BALANCE AT END OF YEAR	\$ 243,200	\$ 240,200

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

**CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1967**

	<u>1967</u>	<u>1966</u>
SOURCE OF FUNDS		
From operations		
Net earnings for the year	\$ 765,175	\$ 564,629
Non-cash charges for		
Depreciation	224,565	225,336
Provision for minority interest, less cash dividends thereto of \$2,284 in 1967 and \$7,598 in 1966	1,147	19,005
	<u>990,887</u>	<u>808,970</u>
Proceeds from disposal of fixed assets	29,226	19,986
Issue of class "A" common shares (Note 6)	82,000	—
Advances from the Government of Canada	340	499,644
	<u>1,102,453</u>	<u>1,328,600</u>
USE OF FUNDS		
Expenditures for fixed assets	141,394	934,596
Current maturity on long-term debt	49,998	49,998
Dividends declared	202,765	127,453
Redemption of preferred shares	2,100	2,698
Acquisition of shares of subsidiary	76,675	148,383
Special refundable tax	11,328	23,923
Acquisition of shares of a Canadian Company	15,000	—
Sundry items	3,578	4,978
	<u>502,838</u>	<u>1,292,029</u>
INCREASE IN WORKING CAPITAL	599,615	36,571
WORKING CAPITAL AT BEGINNING OF YEAR	<u>1,901,200</u>	<u>1,864,629</u>
WORKING CAPITAL AT END OF YEAR	<u>\$2,500,815</u>	<u>\$1,901,200</u>

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

FIVE-YEAR COMPARISON

<u>Operating Results</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>
Sales	\$11,116,278.	\$9,459,724.	\$8,943,366.	\$8,468,969.	\$7,613,709.
Operating Income	1,672,171.	1,022,568.	684,461.	428,670.	366,328.
Depreciation	224,565.	225,336.	191,376.	174,932.	167,641.
Income Taxes	679,000.	206,000.	148,500.	74,949.	54,415.
Provision for minority interest	3,431.	26,603.	44,380.	26,643.	21,398.
Net Earnings after taxes	765,175.	564,629.	300,205.	152,146.	122,874.
Cash Flow	1,020,113.	828,956.	534,856.	337,949.	296,931.
Net Earnings as % of sales	6.9%	6%	3.4%	1.8%	1.6%
<u>Shareholders' Participation</u>					
Dividends Declared					
Preferred	\$ 4,332.	\$ 4,392.	\$ 4,673.	\$ 6,316.	\$ 6,316.
Class A Common	95,883.	61,531.	41,020.	41,020.	41,020.
Class B Common	102,550.	61,530.	28,715.	20,310.	20,510.
Earnings per common share	4.52	3.41	1.80	.89	.71
Common share equity	4,633,078.	3,852,964.	3,192,543.	2,922,586.	2,754,053.
Equity per common share	27.55	23.48	19.46	17.81	16.78
Common share earnings as a % of equity	16.4%	14.5%	9.2%	5.%	4.2%
<u>Balance Sheet Items</u>					
Working Capital	\$ 2,500,815.	\$1,901,200.	\$1,864,629.	\$1,767,042.	\$1,919,373.
Fixed Assets (net)	2,356,023.	2,468,591.	2,029,140.	1,857,554.	1,698,599.
Additions to fixed assets	141,394.	684,774.	371,656.	344,282.	102,869.

